VZCZCXRO6510
RR RUEHDE RUEHDH RUEHDIR
DE RUEHKU #0452/01 1251344
ZNR UUUUU ZZH
R 051344Z MAY 09
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 3292
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHBJ/AMEMBASSY BEIJING 0498

UNCLAS SECTION 01 OF 03 KUWAIT 000452

SENSITIVE
SIPDIS

STATE FOR NEA/ARP, EEB/IFD/OMA, EEB/EPPD
TREASURY FOR INTERNATIONAL AFFAIRS
BEIJING FOR ECON

E.O. 12958: N/A
TAGS: EINV ETRD ECON KU
SUBJECT: KUWAIT: LAYING FOUNDATIONS FOR THE NEW SILK ROAD?

REF: KUWAIT 302
KUWAIT 57

¶1. (SBU) Summary: The global financial crisis notwithstanding, Kuwaiti business and political leaders are seeking to strengthen commercial ties between Asia and Kuwait. From agriculture to banking and from energy to real estate, Kuwait's deep-rooted and globalist mercantile establishment appears to be reorienting back to the east:

--A new $300 million fund, backed by the GOK's sovereign wealth fund, is spearheading private and public investments in China, India and other Asian countries.

--Kuwait, like other GCC nations, is eyeing Southeast and South Asia for investments in the agriculture sector, driven by rising concerns over food security.

--Kuwait and China are attempting to boost cooperation in the petroleum sector, building on China's rising demand for Gulf energy.

--Kuwait's $200 billion sovereign wealth fund is reportedly shifting at least some of its focus to the east.

--Kuwait's $40 billion Islamic bank, Kuwait Finance House -- already a major player in the Turkish market -- has entered the Malaysian market with gusto and is making impressive inroads in that country's competitive retail banking sector.

End Summary.

ESTABLISHED ENTREPOT

¶2. (U) As a trading entrepot, Kuwait has traditionally thrived as a bridge between east and west. Its oil is largely exported to Asia and its merchants have had longstanding ties with Asia, particularly the Indian subcontinent. However, in recent decades, Kuwait's financial investments have been largely oriented to the west.

¶3. (SBU) Today, the U.S. and Kuwait enjoy an exceptionally strong partnership. Nevertheless, doing business in Kuwait has never been plain sailing for American businesses; U.S. firms are largely uncompetitive when considered solely on the basis of price. A potential shifting of political and commercial focus to the Orient will likely benefit Asian firms at the expense of those from the West. This cable presents an initial look at the growing ties between Kuwait and rising Asian powers.

KUWAIT CHINA INVESTMENT COMPANY

¶4. (SBU) Kuwait China Investment Company (KCIC) is the principal Kuwaiti private sector investment company focused on investments in Asia. According to the firm's Princeton-educated chief executive, Ahmad Al-Hamad, the firm was established by Amiri decree in 2005, following then Prime Minister (now Amir) Shaykh Sabah Al-Sabah's visit to China that year. At inception, the company had paid-in capital of approximately $280 million, $137 million raised in an over-subscribed initial public offering (IPO) -- the company has approximately 100,000 shareholders -- and the remainder coming from high profile investors such as the Kuwait Investment Authority (KIA), Kuwait's sovereign wealth fund, Alghanim Industries and National Investments Co. KIA owns approximately 15% of KCIC, while NIC is the largest single shareholder, with 19%. Alghanim Industries' Chairman, Kutayba Alghanim -- one of the most prominent Kuwaiti "merchant family" patriarchs -- is Chairman of the Board of KCIC.

¶5. (SBU) KCIC has paid-in capital of approximately $300 million and, through its own funds and ownership of other asset management companies, manages a further $300 million, according to Al-Hamad. While the firm is currently invested in multiple sectors through its exposure to private equity funds in Asia, its core publicly traded holdings in Asian bourses are in the infrastructure, financial services and consumer sectors. Al-Hamad says KCIC's goal is to launch multi-sectoral public equity and private equity funds in the near future which focus on the "internal consumption play" in both India and China.

¶6. (SBU) KCIC's chief economist (a former senior economist at the World Bank in Washington, DC) explained that KCIC believes that China and other Asian economies, while hurt by the current financial crisis, are poised to emerge relatively stronger economically from

the crisis (i.e., in relation to the U.S. and the E.U.) Rising domestic demand in China -- partly driven by Beijing's $585 billion stimulus package and rapidly growing government expenditure, as well as structural reforms -- will result in investment opportunities in infrastructure, food production, renewable energy, education and health, KCIC asserts. In addition to China and India, KCIC sees opportunities in Korea, Thailand, Sri Lanka, Malaysia, Indonesia, Vietnam and the Philippines.

FOOD SECURITY

¶7. (U) KCIC's management also believes that investment opportunities for GCC countries exist in the agricultural sector in Asia. Indeed, as explained by the firm's chief economist, rising and volatile food prices, combined with the uncertainties of climate change, present a food security problem for countries like Kuwait with almost no arable land.

¶8. (U) During his visit to Southeast Asia in mid-2008, Kuwaiti Prime Minister Shaykh Nasser Al-Sabah announced a $546 million loan to Cambodia for infrastructure expenditures; in return, according to the Economist, Kuwait may be granted a 99-year lease on 124,000 acres of farmland. During the same trip, the Prime Minister discussed cooperation in the agricultural sector with his Laotian counterpart. (Note: in April 2008, Qatar invested approximately $200 million in farmland in Cambodia, according to Reuters. End note). KCIC's economist said that KSA, Qatar and the UAE are all planning investments in farmland in Pakistan and Thailand.

ENERGY COOPERATION

¶9. (SBU) The mounting energy needs of Asia, and in particular China, are yielding stronger ties between GCC nations and the Orient. Over 70% of Kuwait's oil exports go to Asia (with roughly 20% going to Japan). Approximately 40% of China's oil imports now come from the Gulf region (including Iran). Kuwait's stated plans are to increase oil exports to China to around 500,000 barrels per day by 2015.

¶10. (U) Kuwait's energy relationship with China is not only confined to oil exports. Kuwait Petroleum Corporation (KPC) and its

subsidiaries Kuwait Foreign Petroleum Exploration Company (KUFPEC), Kuwait Petroleum International (KPI) and Petrochemical Industries Company (PIC) have embarked on several multi-billion projects in both upstream and downstream activities.

¶11. (U) KUFPEC is a 15% owner of the Yacheng Operating Company -- the majority owner is China National Offshore Oil Corporation (CNOOC) -- which operates the Yacheng gas field in the South China Sea between Hainan Island and Vietnam. Production commenced in 1996 and the gas field's performance has made the China division of KUFPEC the company's most profitable operating unit. Daily gas production in recent years has averaged approximately 286 million standard cubic feet per day.

¶12. (U) KUFPEC, which was founded in 1981 and initially focused on investments in the Middle East, also has interests in oil and gas fields in other parts of Asia including Australia, Indonesia, Malaysia, Pakistan and the Philippines.

¶13. (SBU) In 2005, KPC entered into a multi-billion joint venture with state-owned refining giant China Petroleum & Chemical Corp (Sinopec) to build a 240,000 barrel per day refinery and 1,000,000 tons per year ethylene cracker near Nansha in the southern province of Guangdong. Originally budgeted at $5 billion, the project's costs are now estimated at close to $9 billion, according to Kuwaiti media reports. The project is one of the largest foreign investment programs approved by the Chinese Government in recent years. However, there are apparently environmental "roadblocks" on the project and it has stalled. Kuwait's Acting Oil Minister recently visited China, partially in an effort to resolve the issue.

¶14. (U) On April 1, the GOK announced that Sinopec had signed a separate deal with Kuwait Oil Company (a KPC subsidiary), worth $402 million, to build five oil rigs in Kuwait over five years.

¶15. (SBU) East Asian construction firms, particularly from Japan and South Korea, have a long track record of working on projects in the oil and infrastructure sectors in Kuwait. However, Asian firms' successes in landing contracts for the $15 billion Al-Zour "Fourth Refinery" project were voided when the GOK announced the cancellation of the project tender in March, 18 years after the project was first announced (ref A). (Note: Likely echoing a sentiment felt by many at Dow Chemical Co. in December (ref B), the

Korea Times carried this headline March 20 announcing the cancellation of the Fourth Refinery: "Kuwait Hangs Korean Builders Out to Dry." End note). The Japanese Ambassador recently told econoff that he had difficulty encouraging Japanese companies to be more active in Kuwait, given the difficult business climate in Kuwait.

SWF LOOKS EASTWARD

¶16. (U) In July 2008, officials at Kuwait's sovereign wealth fund, the Kuwait Investment Authority (KIA) -- with holdings estimated at approximately $200 billion -- stated that the fund was exploring investment opportunities in Asia, partly driven by the deteriorating economic situation in the U.S. and Europe. This eastward turn came in the wake of KIA's $720 million participation in the $19 billion record-breaking initial public officering of the Industrial and Commercial Bank of China, now the world's largest bank.

¶17. (SBU) A senior KIA official told econoff that KIA is very bullish on Asia as it is the only region in the world where the KIA foresees sustained double-digit growth. He stressed, however, KIA's continued interest in U.S. and European investments, noting that KIA has recently re-entered the U.S. real estate market (largely via Real Estate Investment Trusts or REITs).

Islamic Banking

¶18. (U) Kuwait Finance House's (KFH) international expansion has resulted in Kuwait becoming a major player in the banking sectors of

two fast-growing Asian economies, Malaysia and Turkey. Sharia-compliant KFH is the second largest bank in Kuwait with total assets of approximately $40 billion, behind market leader National Bank of Kuwait (with assets of $43 billion). The bank is now the second largest Islamic bank in the Gulf, narrowly trailing its slightly larger Saudi competitor, Al Rajhi Bank.

¶19. (U) KFH is the majority shareholder of Kuveyt Turk, one of Turkey's leading "participation" banks. KFH set up its Turkish subsidiary 20 years ago and the bank finances and promotes trade between the Gulf and Turkey. On the other side of Asia, KFH is the majority shareholder of Kuwait Finance House (Malaysia) Berhad (KFHMB), a rapidly rising Islamic banking practice in Malaysia, established in 2005. The bank also acts as an intermediary and facilitator of two-way investment between Kuwait and Malaysia.

Comment

¶20. (SBU) Cash-rich Kuwait's 20-year old infatuation with "conservative" investments in the U.S. and Europe may be coming to an end. As the KIA and business owners take heed of China and India's growth - including accelerating domestic demand -- they are likely to diversify their portfolios increasingly towards Asia. With domestic demand poised to accelerate in China and other Asian countries, Kuwaiti investors will be tempted to divert holdings eastwards. This is not to say that Kuwaitis will cease to be active players in the U.S. markets. Rather, they will join some of their GCC brethren in increasing their portfolios in the Orient. With respect to energy, Chinese oil services companies will try to become bigger players in the Kuwait market as Beijing seeks to consolidate ties with a region that provides much of its energy needs. Lower costs and a growing reputation for quality will make Chinese oil services companies more competitive. Kuwaiti wariness of foreign investment in the upstream oil sector will likely prove as frustrating to the Chinese as to American companies. Nevertheless, financial, trading and energy ties between Asia, Kuwait and other Gulf states all point to the reemergence of a "new silk road," albeit one in its early stages. End Comment.

JONES
[j1]Source of this one. The old data I could find suggests that Iran would be a big source as is Angola